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TO RUEHC/SECSTATE WASHDC 8660
INFO RUEHRG/AMCONSUL RECIFE 6504
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RUEHSO/AMCONSUL SAO PAULO 9619
RUEHBU/AMEMBASSY BUENOS AIRES 4708
RUEHAC/AMEMBASSY ASUNCION 6047
RUEHSG/AMEMBASSY SANTIAGO 6191
RUEHMN/AMEMBASSY MONTEVIDEO 6844
RUEATRS/DEPT OF TREASURY WASHINGTON DC
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SUBJECT: BRAZIL: SUBCABINET LEVEL ECONOMIC TEAM CHANGES

REF: A) BRASILIA 60
B) BRASILIA 555

1. (SBU) Summary: With the make-up of President Lula's second-term cabinet now finally finalized (ref B), attention has shifted to some of the second tier positions in government. The Central Bank announced on April 11 that it was asking Lula to nominate Mario Gomes Toros, a former Vice President of the private bank Santander-Banespa, to the position of Director of Monetary Policy. Toros would take the place of Rodrigo Azevedo, who cited personal reasons for returning to the private sector. The appointment of Toros, an economist with orthodox credentials and extensive operational experience in financial markets, suggests there will be continuity of policy and outlook at the Central Bank. The Finance Ministry, in turn, appears to be making an effort to make amends with the Central Bank over previous criticisms of the pace of interest rate cuts. Finance Minister Mantega has been careful in recent public appearances not to criticize interest rate levels and recently accepted the resignation of his Secretary for Economic Policy, Julio Gomes de Almeida, after the latter did publicly criticize the Bank. Finance Ministry Executive Secretary (vice-minister equivalent) Bernardo Appy has stepped into the economic policy job, while former Social Security Minister Nelson Machado, who was displaced during the cabinet shake-up, has been named the new Executive Secretary. End Summary.

Central Bank

2. (SBU) Brazilian Central Bank Monetary Policy Director Rodrigo Azevedo cited personal reasons for returning to the private sector in an April 11 Central Bank press release. Azevedo has been a frank interlocutor with the Mission and well-regarded in the financial community. His replacement, Mario Toros, has extensive operational experience in financial markets, including a stint as Vice-President and Director of Treasury and market operations at Santander-Banespa. He later operated an investment fund, the Thassos fund. His treasury experience will be very relevant to his new position, as Toros will oversee the Central Bank's open market operations. An advisor to the Central Bank Board told Emboff that he believes Toros to be amply qualified for the job. The advisor dismissed any suggestion that the personnel change would have any implications for

monetary policy. Separately, several financial analysts have told the press the same. It also appears that Central Bank President Meirelles has opted not to name a director to replace Afonso Bevilaqua, the director for economic policy, who resigned earlier this year. Mario Mesquita has taken over Bevilaqua's responsibilities and Meirelles indicated to the press on April 11 that Mesquita would continue covering both Bevilaqua's and his own directorate for the foreseeable future.

Finance Ministry

13. (SBU) Separately, there has been a re-shuffling of senior personnel at the Finance Ministry. The Secretary for Economic Policy, Julio Gomes de Almeida, a long-time associate of Minister Mantega, tendered his resignation on April 4, a day after the press published an interview in which Almeida was sharply critical of the Bank's exchange rate stance. Almeida's departure was part of a shuffle of the senior sub-ministerial positions in the finance ministry which saw Executive Secretary Bernardo Appy (vice-minister equivalent) take over as Secretary for Economic Policy (a job he had already held under former minister Palocci). Meanwhile, former social security minister Nelson Machado, who lost his ministry to one of Lula's allies in the PT, became executive secretary in Appy's place. Lula reportedly was satisfied with Machado's work, but needed a ministry to give to PT cadres. Machado agreed to take a less senior job, albeit at a more central ministry. In addition, Mantega has not yet named a permanent replacement for Treasury Secretary Carlos Kawall, who quit over disagreements with the

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presidency on the financing of Lula's stimulus package (ref A); the interim secretary, Tarcisio Godoy, remains on the job.

Making Up

BRASILIA 00000661 002 OF 002

14. (SBU) The Finance Ministry has been working to reduce public disagreements over policy with the Central Bank. Over the last several weeks, not only has Mantega not repeated any of his previous outbursts about the pace of interest rate reductions, he has made statements supportive of central bank decisions. In announcing the Finance Ministry personnel shakeup on April 4, the press quizzed Mantega about Almeida's criticism of the Central Bank of the previous day. Mantega disavowed Almeida's criticism in fairly strong terms, stating that, as Almeida was already on his way out the door when he made those statements, those comments represented his private views and in no way represented the ministry's official position. Mantega then reiterated his support for the Bank, noting that the economy was growing, inflation was under control and interest rates were falling. Monetary policy, he said, had been "correct."

15. (SBU) Comment: Lula wants continuity on economic policy in his second term, albeit with a slightly lower primary surplus but higher growth rates. Nothing in the sub-cabinet personnel shuffle suggests that there would be substantive changes in policy or outlook. While it is encouraging that Mantega seems to be making a greater effort to limit criticism of the Central Bank, previous cease-fires have not held for long.

SOBEL